

**REGULAR STATE BANKING BOARD MEETING
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

July 20, 2012

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Entringer called the meeting to order at 9:00 a.m., Friday, July 20, 2012, by conference call.

MEMBERS PRESENT: Robert J. Entringer, Chairman (*Office*)
Nancy Baerwald, Member (*Cando*)
Linda Beall, Member (*Velva*)
Kim Larson, Member (*Casselton*)
Anita Quale, Member (*Watford City*)
Tom Stennes, Member (*Harwood*)

MEMBER ABSENT: Bill Daniel, Member

ALSO PRESENT: Aaron K. Webb, Secretary (*Office*)
Suzette Richardson, Administrative Staff Officer (*Office*)
Janilyn Murtha, Assistant Attorney General (*Office*)
Blake Nelson, State Bank & Trust (*Fargo*)
Jon Aarsvold, State Bank & Trust (*Fargo*)

WELCOME TOM STENNES

Chairman Entringer welcomed Tom Stennes, President of Harwood State Bank, Harwood, to the State Banking Board. Chairman Entringer indicated Member Stennes was appointed by Governor Dalrymple for a five-year term (July 1, 2012 – June 30, 2017), and replaces former Member Monson. Member Stennes indicated he is looking forward to serving on the Board.

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on May 10, 2012, and the special meeting held June 18, 2012.

It was moved by Member Beall, seconded by Member Baerwald, and unanimously carried by voice vote, with Member Daniel absent, to approve the May 10, 2012, and June 18, 2012, minutes as presented.

STATE BANK & TRUST, FARGO, TO MERGE WITH FIRST NATIONAL BANK, HAWLEY, MN, AND ESTABLISH INTERSTATE BRANCHES IN HAWLEY AND DILWORTH, MN

Assistant Commissioner Webb reviewed his Memorandum dated June 26, 2012, indicating the Department received the an application on June 20, 2012, for State Bank & Trust, Fargo, (State Bank) to merge with First National Bank, Hawley, MN, (First National) and to establish interstate branches in Hawley and Dilworth, MN.

Assistant Commissioner Webb indicated notice of the application was published as a joint state/federal notice pursuant to Section 13-02-13-03.1 of the North Dakota Administrative Code, in the both the Fargo Forum, and Hawley Herald, on June 18, June 25, and July 2, 2012. Assistant Commissioner Webb indicated the comment period ended July 18, 2012, and no comments were received nor were there any requests for copies of the application.

Assistant Commissioner Webb indicated Section 6-03-11 of the North Dakota Century Code provides authority for the proposed merger application.

Assistant Commissioner Webb indicated Section 13-02-13-02 of the North Dakota Administrative Code sets forth the requirements for a merger application.

Assistant Commissioner Webb indicated The Agreement and Plan of Merger of First National into State Bank was entered into on June 14, 2012, by First National President Rick Schultz and State Bank President Michael Solberg.

Assistant Commissioner Webb indicated a Waiver of Notice of Special Meeting of the Shareholders of State Bank & Trust was included in the merger

application, as well as Minutes of Special Meeting of the Shareholders of State Bank & Trust which indicate the merger of First National into State Bank was approved by State Bankshares, Inc., the sole shareholder, by resolution on June 14, 2012.

Assistant Commissioner Webb indicated the Resolution of Board of Directors of State Bank and Resolution of Board of Directors of First National approving the merger application were adopted on June 14, 2012.

Assistant Commissioner Webb indicated a consolidated balance sheet for State Bank and First National as of March 31, 2012, and pro forma for 2013 were included in the merger application.

Assistant Commissioner Webb indicated a list of the directors and senior executive officers of the resultant institution are included in the merger application.

Assistant Commissioner Webb noted State Bank's position that the proposed merger would allow the customers of First National to access a broader suite of financial products and provide more facilities in the surrounding area at which they may conduct banking business.

Assistant Commissioner Webb reviewed criterion of Section 13-02-13-04 of the North Dakota Administrative Code, indicating proper notice was given to all shareholders, and that State Bankshares, Inc., sole shareholder, approved the merger application.

Assistant Commissioner Webb indicated the merger application details the projected capital of the resultant bank on a pro forma basis as of 3/31/12 and projected 12/31/12. Assistant Commissioner Webb indicated capital of the resultant bank as of 3/31/12 is 9.23% Tier 1 leverage, 10.93% Tier 1 risk-based, 12.10% total risk-based; as of 12/31/12 the above respective ratios are 10.00%, 11.25%, 12.45%; and the bank is projected to remain in the well capitalized capital category.

Assistant Commissioner Webb indicated State Bank intends to continue operations in the former First National location, as well as the its detached facility located in Dilworth, MN.

Chairman Entringer pointed out that State Bankshares, Inc. is the parent holding company of both State Bank & First National.

Blake Nelson, Senior Vice President, indicated Kurt Newman, CEO, and John Newman, Controller, of First National terminated employment on April 2, 2012, when State Bank purchased First Hawley Bankshares. SVP Nelson indicated that Rick Schultz remains as the President of First National.

Chairman Entringer indicated the Department did not conduct an examination of First National which the Department is authorized to do under statute; however, as shown on the pro forma balance sheet, the asset size of First National compared to State Bank is not material to State Bank's balance sheet.

Jon Aarsvold, Senior Vice President, indicated State Bank reviewed all of First National's commercial ag credits over \$250,000, as well as reviewed all past due and problem loans, including nonaccrual assets. SVP Aarsvold indicated the commercial ag portfolio in First National is approximately \$22 million, of which 80% was reviewed. SVP Aarsvold indicated there were changes to the reserve amount in loans; however, were resolved through in negotiations on price.

Upon being asked by Chairman Entringer for the merger target date, SVP Nelson indicated it is September 23, 2012. SVP Nelson added that State Bank's name change was approved by the State Banking Board on June 18, 2012, and should become effective following the merger. Chairman Entringer indicated if the State Banking Board approves the merger application, the Department will file both the Articles of Merger and Articles of Amendment regarding the name change with the Secretary of State.

Assistant Commissioner Webb indicated the Department recommends the merger application be approved, and that Chairman Entringer be authorized to sign the proposed Order on behalf of the State Banking Board.

It was moved by Member Baerwald, seconded by Member Larson, and carried by a vote of 6 to 0, with Member Daniel absent, to approve the application by State Bank & Trust, Fargo, to merge First National Bank, Hawley, Minnesota, into State Bank & Trust, Fargo; to establish interstate branches in Hawley and Dilworth, MN; and that Chairman Entringer be authorized to sign the Order on behalf of the Board.

SVP Nelson and SVP Aarsvold left the conference call at 9:17 a.m.

CHANGE OF CONTROL APPLICATION

Assistant Commissioner Webb reviewed his Memorandum dated June 4, 2012, regarding the change of control application from Beall Bancshares, Inc., to acquire 100% control of Peoples State Bank of Velva. Assistant Commissioner Webb noted the application was received May 29, 2012, and deemed complete on June 4, 2012.

Assistant Commissioner Webb indicated pursuant to North Dakota Administrative Code Section 13-02-17-01 notice of the application was published in the *Mouse River Journal*, Towner, on June 6, 2012. The comment period ended June 18, 2012, and no comments or requests for copies of the application were received.

Assistant Commissioner Webb reviewed North Dakota Century Code Section 6-08-08.1(4) which details change of control application criteria.

Assistant Commissioner Webb indicated the proposal is to form a one-bank holding company to be owned by the current individual stockholders, with no changes in ownership percentages or management.

Chairman Entringer indicated the FR Y-3N document provided to the Federal Reserve changed since Beall Bancshares, Inc. had to file a more expanded application detailing financial and biographical information of the owners.

Chairman Entringer indicated the stock of Peoples State Bank of Velva is presently personally owned by the Beall family, and through the proposed change of control application that stock will be exchanged for stock in a bank holding company.

Assistant Commissioner Webb indicated the Department recommends approval of the change of control application by Beall Bancshares, Inc., to acquire 100% control of Peoples State Bank of Velva.

It was moved by Member Quale and seconded by Member Baerwald to approve the change of control application by Beall Bancshares, Inc., to acquire 100% control of Peoples State Bank of Velva. The motion was carried by a vote of 6 to 0, with Member Daniel absent and Member Beall abstaining.

Assistant Attorney General Murtha explained that under North Dakota law Board members are considered to have an obligation to vote; therefore, if a Board member chooses to abstain from voting, that abstention vote will be cast in favor of the majority.

MCKENZIE COUNTY BANK, WATFORD CITY – REQUEST TO OWN RESIDENTIAL REAL ESTATE

Assistant Commissioner Webb reviewed his Memorandum dated July 6, 2012, indicating McKenzie County Bank, Watford City, has submitted an application to purchase real estate to be used as employee housing; specifically, to purchase a twin home in Watford City for a purchase price of no more than \$500,000.

Assistant Commissioner Webb indicated the State Banking Board previously authorized this type of activity under parity power found under North Dakota Century Code Section 6-03-02.3.

Assistant Commissioner Webb indicated the Department received a letter dated July 5, 2012, from Dale Patten, Senior Vice President of McKenzie County Bank, requesting authorization to purchase real estate as housing for two bank employees and their families. Assistant Commissioner Webb indicated SVP Patten explained there is limited affordable housing in the Watford City area due to the increase of population as a result of the oil boom; that the bank would remain in compliance with the fixed asset limitation after the purchase; and that the bank would list the property for sale with a broker once it is no longer needed for employee housing.

Chairman Entringer indicated the Department recommends approval of the application by McKenzie County Bank, Watford City, to own residential real estate for the benefit of its employees, subject to: (1) the purchase price shall not exceed \$500,000; (2) the bank shall notify the Department immediately upon purchase of the property, along with the purchase prices; (3) the bank notify the Department when the bank is no longer using the property for employee housing; and (4) when the property is no longer used as employee housing the bank shall divest of the real property within five years, unless this time period is extended by the Commissioner.

Chairman Entringer indicated a similar request was received on July 16, 2012, from Blaine DesLauriers, First International Bank & Trust, Minot, to purchase housing in Williston for the benefit of its employees. Chairman Entringer indicated the bank is seeking approval to purchase a 4-plex townhome in Williston at an estimated purchase price of \$459,000. Chairman Entringer indicated the bank plans to retain the property until the housing market stabilizes.

Chairman Entringer indicated the same conditions would apply for the request by First International Bank & Trust as outlined in the request by McKenzie County Bank; however, the purchase price for First International Bank & Trust cannot exceed \$459,000.

It was moved by Member Beall, seconded by Member Larson, and carried by a vote of 6 to 0, with Member Daniel absent, to approve the application by McKenzie County Bank, Watford City, to invest in residential real estate in Watford City for the benefit of its employees not to exceed \$500,000.

It was moved by Member Baerwald, seconded by Member Beall, and carried by a vote of 6 to 0, with Member Daniel absent, to approve the application by First International Bank & Trust, Watford City, to invest in residential real estate in Watford City for the benefit of its employees not to exceed \$459,000.

BANK FORWARD, HANNAFORD – REQUEST TO INVEST IN A SUBSIDIARY CORPORATION

Assistant Commissioner Webb indicated North Dakota Century Code Section 6-03-38 authorizes a bank's investment in a subsidiary corporation.

Assistant Commissioner Webb reviewed his Memorandum dated July 12, 2012, indicated the Department received a letter dated July 11, 2012, from Chief Financial Officer Toby Kommer requesting permission to establish a wholly-owned subsidiary of Bank Forward. Assistant Commissioner Webb reviewed a letter from CFO Kommer which indicates the investment sales division of the bank is currently operated under the trade name of Invest Forward, and the bank is proposing to establish Invest Forward as a wholly-owned S Corporation. Further, CFO Kommer's letter provides the bank investment would be \$1,000 in the establishment

of the new entity, and that this would not have an impact on the consolidated capital of the bank.

Assistant Commissioner Webb indicated the proposed subsidiary corporation would conduct investment sales activities, which would be incidental or complementary to the bank's activities.

Assistant Commissioner Webb indicated the Department recommends approval of the request by Bank Forward to invest \$1,000 in a wholly-owned subsidiary to be known as Invest Forward.

Chairman Entringer indicated he recommends if approval is granted for Bank Forward to invest in a wholly-owned subsidiary that the investment be limited to \$1,000; adding if the bank wants to increase the amount State Banking Board approval would be required.

It was moved by Member Beall, seconded by Member Larson, and carried by a vote of 6 to 0, with Member Daniel absent, to approve the request by Bank Forward, Hannaford, to invest up to \$1,000 in a wholly-owned subsidiary known as Invest Forward to engage in investment sales.

ITEMS TO BE NOTED

Chairman Entringer indicated that on July 3, 2012, he approved, as Commissioner, an application by Bank Forward, Hannaford, to establish a LPO at 1202 28th Street South, Fargo.

Chairman Entringer indicated that on June 25, 2012, he approved, as Commissioner, an application by State Bank & Trust, Fargo, to establish a LPO at 563 Bielenberg Drive, Woodbury, MN.

BANK BUDGET UPDATE

Chairman Entringer reviewed the May 31, 2012, Organizational Status Report by Summary Account and Source, and indicated he had no items to report at this time. Chairman Entringer indicated the September 30, 2012, report will include the assessment revenue collected for the current fiscal year.

NEXT MEETING

Chairman Entringer indicated the next meeting of the Board will be on September 13, 2012.

The Board went into closed session at 9:36 a.m. to review the Supervisory Reports of Examination pursuant to North Dakota Century Code 6-01-07.1.

Robert J. Entringer, Chairman

Aaron K. Webb, Secretary